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ACCINGO RECOMMENDATIONS FOR CONSIDERATION
BY WE-ROC EXECUTIVES

Our findings in this report are to be used as a basis to justify further review and potential actions to be undertaken as a group collective within WeRoc. Assumptions made in the lead up discussions with WeRoc executives led to our engagement around asset utilization improvements with a view to improve financial performance, however this required justification through data and analysis prior to any broad assumptions being made.

Upon Completion of our review we are able to provide recommendations for the consideration of the We-Roc executive members. These recommendations are categorized in terms of ease of implementation and / or materiality of potential cost saving. Additionally, these suggestions are to be used for the purpose of acceptance or elimination, and prioritisation by the executives and therefore we include all potential options for such review.

These recommendations are based on prior learnings and experience of asset management 'best practice' principals revised for our understanding of the Local Government activities and requirements and focus on providing a foundation in which to generate cost savings and improved financial position of the We-Roc shires.

The following recommendations are based on our analysis of the data received however justifications based on any calculations performed should be verified to ensure no anomalies exist in the data provided.

Accingo have experience in operational roll out of such recommendations and can assist We-Roc in the execution of each chosen course of action.

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RECOMMENDATIONS

1) ASSET IDENTIFICATION STANDARDISATION

DIFFICULTY: LOW. ADMINISTRATION ONLY

TIME TAKEN: MEDIUM. DUE TO VOLUME OF HISTORICAL DATA

Having standardised asset codes and descriptions provides benefits in asset identification, transfer and traceability. Often, assets are known to individual staff due to familiarity however when new staff come on board or assets are transferred, cross hired or sold, non-standardised asset descriptions and lack of any consistency in asset identifiers creates potential risk and administration difficulty.

Currently there is a blend of Alpha numeric and numeric which do not follow any format that is easily recognizable between shires. For example, the Group code in one shire could be PE whilst in another shire it is recorded as the No 3. Asset codes similarly have examples such as 1868 versus in another shire showing P10.

Ideally, anyone internally or externally whether in a finance & administration role, operation or maintenance role should be able to easily recognize & trace an asset by a standardized reference system. As noted, this also assists the transfer of equipment either permanently or temporarily between shires.

Suggestion:

Agree on a standardize format which is backed up by an asset register policy and amend current system fields to provide such standardization.

Ideally an Asset Code would be the first 2 letters of the equipment type & a numerical number based on chronological order in terms of acquisition. i.e. Wheel Loader is WL005.

Furthermore, a standard approach to Asset descriptions should be adopted universally across all 5 registers, such as;

Model, Type, Manufacturer. i.e. 770G Grader Caterpillar



2) PURCHASE AND SALE PROCESS REVIEW

DIFFICULTY: MEDIUM. POLICY FORMULATION, ADMINISTRATION, AUDITABILITY
TIME TAKEN: MEDIUM. CONCEPTION, AGREEMENT & IMPLEMENTATION TIME

This requirement was highlighted by several issues discovered when reconciling asset registers to system reports. Although these discrepancies may have been understood by the administration staff or works managers, there were instances where reporting did not back up the stated position.

Examples to note:

Sale of assets. An asset was sold however remained on the asset register at the time of the review. It was noted this had been sold however difficult to find record of sale or provision of an updated report noting asset was removed. Further to this, upon discussion there seemed to be a lack of process or knowledge of a working procedure on selling assets.

This can create many issues and should be rectified as soon as possible where no policy or procedure exists for purchase & sale of assets. Administratively this can skew the financial position of the Shire by over/understating asset value and asset audit discrepancies. Financially this opens a potential risk of unintended or intended financial loss.

Asset purchases. An asset was purchased however was not recorded on to the asset register for nearly 6 months. Although understanding where this asset may have been working and from a maintenance & operational point of view may not be an issue, this raises several issues administratively & financially. Financially the asset register is incorrect and does not reflect the full asset list, asset values nor will it incur depreciation or holding costs during that period. Administratively, certain key metrics like hours reports, Balance sheet reconciliation etc. can not be updated. When utilization and financial performance is measured, this is performed by date of acquisition, not date of registering on the asset register. This error results in overstating utilization performance and under expensing of depreciation.



Suggestion

Review of any current “Sale & Purchase of Asset” policy or similar and check for completeness and whether policies are being followed.

If these are not in place then formulation & implementation of such a policy should be agreed upon.

Further to this, with reference to any LGA risk registers, required sign offs should be adhered too.

Finance, admin or asset management staff need to be noted within this policy with sign off occurring for asset register accuracy and completeness to avoid such discrepancies.

3) STANDARDISATION OF DEPRECIATION RATES & USEFUL LIFE

DIFFICULTY: LOW TO MEDIUM ADMINISTRATION & FINANCE

TIME TAKEN: LOW. ACCOUNTING ADJUSTMENT & CAPEX FORECAST

AMENDMENT

Assets commonly have a uniform set of depreciation rates and useful life expectations which govern a couple of important asset management fundamentals. Depreciation rates are simply a book entry that denotes how quickly an asset is depreciated. At what rate, over how long and whether there is a balloon residual. Although there are guiding principals to benchmark against it is ultimately up to the business unit (in this case, the Shire) to determine however it must be understood there are accounting principals that govern management of assets so this should be understood.

Depreciation rates set an amount in which the asset is written down which should be close to the market value write down of the asset. This rate will impact the profit & loss of the Shire as the depreciation each year is an expense. Should the depreciation not be accurate, 2 things can occur. When the asset is ready to be sold it may be worth much more on the books than the true market value is, and secondly, when a revaluation is performed every 3 years there can be a material hit to the Profit & Loss for write-down of assets.

When looking to see how long an asset is held onto (replaced) is generally guided by the expectation that maintenance costs or downtime will not outweigh the costs of having a new machine. When a machine is constantly in need of repair and can not be used to its full effectiveness, its useful life is determined. Additionally, thoughts about obtaining optimum value on resale is also a consideration.



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Much like how councils treat personal motor vehicles, there are parallels to how mobile working assets can be managed. Machines can often be cheaper to own when new and resale funds can be made prior to any major maintenance costs such as engine rebuild or major component servicing costs.

Currently there is little uniformity across shires and in some instances within a shire in terms of depreciation rate guidance and application. Furthermore, monitoring of depreciation is not taking place in some shires as there is often issues arising post revaluation or purchase. Depreciation, and importantly book value is critical in terms of managing Balance Sheet health as Sale or revaluation events can materially impact results.

Suggestion

We suggest a uniform set of depreciation rates be agreed too and implemented via the asset management policy as already discussed. This rate can be set internally or provided by an external source which provides the best basis in which to have good financial management of assets.

Another piece of work can be done around determining useful lives of assets. As already discussed, sweating an asset by maintaining it until it falls over is not always cost effective either. A review of how maintenance costs are captured and reported on and should be done down to machine level. It can be noted that some already do this effectively. At this point not all reports provided accurately reflect maintenance costs down to machine level therefore it is difficult to ascertain the total cost of owning a machine. Referencing point 1 in this report, asset identification and reporting may assist this. Review & update of the asset management policy should reflect how maintenance is tracked and standardized depreciation rates to be applied.



4) REVIEW OF UNDERPERFORMING ASSETS

DIFFICULTY: MEDIUM. SALE, TRANSFER OF EQUIPMENT, INCREASE SERVICES
TIME TAKEN: HIGH. STEPPED PROCESS WITH MEASUREMENT OF KEY
DELIVERABLES

Firstly, an agreed benchmark, or 'Target' utilisation rate needs to be agreed between the 5 shires. This can be done by product type given there is much disparity between the products but also recognizing the criticality of some assets over others. In saying this, there should be some consistency or method in how this target rate is agreed.

The Target rate should be one which drives the financial benefits expected however also can be managed operationally, which is why we suggest this is performed in a staged approach over a period. Throughout our discussions we have nominated a rate of 40%. This is at the lower base of commercial expectations and is essentially a universal rate that often is close to hire rates. Essentially, below 40% utilization of fleet, it is often a more cost-effective exercise to hire the equipment.

As referenced in the below table, these figures are reflective of a hypothetical rate which is a result of idle capacity at levels under 40%. The costs are derived from holding costs only which are depreciation and funding (or opportunity cost to do other things with the inefficient use of funds in idle equipment). The real benefits to be identified come in the form of 2 major forms, being;

- 1) Reduction of asset numbers, therefore delivering the same services with less equipment
- 2) Increase hours in which equipment is being productively used. This can be further split into 3 areas;
 - a. Increase services within the shire
 - b. Seek external uses for equipment with local contractors, companies &/or main roads therefore receiving a commercial return on surplus availability of gear.
 - c. Increase equipment productivity time by sharing across the We-Roc group of shires (in conjunction with point 1.)



As noted previously, we have not taken into account local requirements and therefore any suggestions must be weighed up alongside these requirements, restrictions in seasonal availability etc. however we do attempt to explore alternative options to combat seasonality.

1) REDUCTION OF ASSET NUMBERS

This scenario looks at an overall reduction of the fixed number of plant each shire owns based on historical usage patterns and an assumption that each shire is open to explore an alternative method of fleet ownership and management to achieve savings in asset ownership costs.

Furthermore, this can be looked at in a 2-step approach. Firstly, what asset reductions are clearly evident and able to be done now with little or no impact to services and secondly, should We-Roc move to a 'sharing' model (shown in Item 4 ' We-Roc Consolidation approach'), a more extensive review of asset reduction can take place.

The overall purpose of reducing asset numbers is to maintain the same output of services with fewer assets, which essentially increases the utilization rate of the assets being held. There are 3 benefits of this approach;

- 1) Instant cash return on receipt of sales revenue of plant sold**
- 2) Amended requirement for future asset purchases, and reduced holding costs such as maintenance expenses**
- 3) Potential to review personnel operating machinery to make them more productive**

Conceptually the process to be undertaken is to identify the underperforming assets, i.e. this under 40% Target rate (1st round target) and analyse why this is so. It could be due to the physical amount of work available for this machine or its condition to conduct the works reliably & without hefty maintenance costs. Potentially, in some cases there could also be a lack of available operators to keep the machines at full potential availability.

To highlight areas of review, the below reflects a high-level summary as reflected in the tabled graphs in the report previously provided. Here we show Category, Number of machines per category, Asset



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Register Cost & WDV, Average utilization and No of machines that are under 15% which is a number which denotes a material under capacity to justify ownership.

Summary of position;

CATEGORY	No	Cost	WDV	AVG UTILISATION	No BELOW 15%
Wheel Loaders	15	\$1.8M	\$1.6M	23.0%	8
Grader	17	\$3.8M	\$3.3M	35.0%	2
Roller	17	\$1.4M	\$1.2M	16.3%	10
Excavator	2	\$98K	\$90K	4.9%	2
Tractor	2	\$69K	\$56K	2%	2
Bobcat	3	\$126K	\$102K	8.4%	3
TOTAL	56	\$7.3M	\$6.3M	21%	27
TOTAL	27	\$1.79M	\$1.56M	8.1%	27
(under 15% Utilisation)					

The table above is a starting point in understanding the right balance of equipment required and is the catalyst for further review of underperforming assets. A total of 27 assets are well underperforming and should be reviewed and a sale of such equipment should be explored which would allow for a return of funds back into the balance sheet of each council and would be what we call an opportunity cost of ownership, or, what else can be done with those funds to add more value to rate payers.

Although the number above is reflected on the Balance sheet, as noted in point 3, the depreciation rates, revaluations and timeliness of updating the asset register could have a material impact on actual market value of these assets.

Suggestion

A review of underperforming assets should be done to firstly understand why this is taking place. It could be the equipment is unreliable or perhaps the need for its services are seldom and remote. Looking forward as to whether a piece of equipment is required needs to require justification. Without this, ability to recognize savings will be limited.



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A revaluation of equipment is performed every 3 years and the timing of this review could co-exist with this process of potential sale proceeds. Alternatively, some form of relationship with a machine broking house could work on behalf of We-Roc to source buyers.

When discussing potential asset sales, it is important to note that items 5 & 6 further in this report play a part in the shire having confidence in this process not impacting services to roads and ratepayers.

When buying new equipment, it should be done on the view that services can be performed effectively & efficiently. There is no doubt new equipment is often required throughout the shires and in fact it can be argued that more needs to be spent than currently is (should maintenance costs be higher than cost of new ownership). The identified process of this in some shires is based on a set time rather than based on key metrics around utilization, maintenance or holding costs, hire v buy, or from any review of more effective equipment management practices. Again, this should be revisited in conjunction with potential synergies coming from Items 5 & 6 further in this document.

2) INCREASE HOURS IN WHICH THE EQUIPMENT IS BEING PRODUCTIVELY USED

The 3 points raised in this section effectively go to the core of what we are trying to achieve. Improving the effectiveness of asset ownership by improving utilization and reducing ownership costs. The 3 points above were;

- a. Increase services within the shire
- b. Seek external uses for equipment with local contractors, companies &/or main roads therefore receiving a commercial return on surplus availability of gear.
- c. Increase equipment productivity time by sharing across the We-Roc group of shires (in conjunction with point 1.)

Point a) may be a relatively moot point as I'm sure each council is doing all they can with the resources they have however it is obviously one way to increase utilization.



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Point b) is a financially effective way of increasing profitability within shires by using surplus downtime of gear. We observed some shires have taken on a more proactive view of this opportunity than others. It is agreed that some shires have more opportunity to provide equipment to commercial businesses or main roads however it is also evident that opportunities exist above what is being done.

Once reporting and ease of asset tracking is complete, it becomes a matter of focus in sourcing opportunities for equipment to be on hired. Targets of utilization can therefore not only be a lag indicator of a resources effectiveness but can also drive behaviors in achieving an improved financial position by sourcing such opportunities. Local councils understand what opportunities are around for this to occur more than we do, we are simply providing an independent view of what can be focused on to provide efficiencies.

Suggestions

Once we understand surplus capacity, we then need to review logistics of having underutilised equipment moving to areas of need, tracking & reporting efficiently & effectively and looking for Sales opportunities (cross hiring / transfer). A target should be set between the shires to drive these behaviors and actions agreed to & monitored.

There are localised opportunities e.g. local contractor or business currently contracts a dry or wet hire piece of machinery and an operator from Perth where this could be facilitated locally. Now whether this opportunity exists (having a surplus water cart or loader) for that shire is debatable however when we look at opportunities, we need to look at this as a We-Roc opportunity as there is access to a wider pool of potential solutions. When thinking about contracted opportunities we need to also look at implementation of points 5 & 6 to follow as part of the solution.



5) IMPLEMENTATION OF TECHNOLOGY SOLUTIONS

DIFFICULTY: MEDIUM TO HIGH. ASSET TRACKING, REPORTING & FACILITATION OF UTILISATION IMPROVEMENTS

TIME TAKEN: MEDIUM TO HIGH. IMPLEMENTATION, TRAINING AND INFORMATION UPLOAD

Administration of assets can be time consuming, difficult to maintain accuracy and completeness and we understand this review may be perceived as adding additional burden to the current workload of each shire, at least initially. Implementation of asset management systems can also feel like an expensive and unnecessary step so its important to understand the why, how & what of such a move.

In order to successfully implement some of the recommendations noted in points 4 & 6 we recognise this may take considerable administrative effort to manage and resources may not be available. There are a few off the shelf solutions or a more bespoke solution could be built to suit the requirements of We-Roc to allow this to occur. Accingo have sought such products and have relationships in this area. We also have experience in implementing & training staff to use such products should this be agreed that value would be created for the group.

In essence, this product would allow all assets to be housed on a web and App based solution whereby works managers, finance managers and CEO's can;

- view available assets in the total fleet
- have real time reporting on usage, location and availability, &
- track job costings, maintenance schedules and all financial data at We-Roc level, Shire level, plant type or individual machine level

The benefits of this approach are;

- Reduced reliance on administration
- A true picture of asset availability through the entire We-Roc group
- Provide a platform in which true efficiencies can be worked towards
- Improve buy / sell decisions at a group level
- Improve sharing opportunities to complete works in a cost-effective manner by increasing overall utilization



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Although at this stage, the technology adoption is stand alone and does not work on the assumption of physically 'pooled' assets in 1 location, the approach has provided an ability for works managers to plan for scheduled & unscheduled works by selecting equipment for a task or job. They would select from 2 areas;

- Owned fleet
- Fleet owned within the group that has been 'flagged' for sharing purposes

A task would then have selected equipment allocated to the task. Equipment would then be allocated to that task and requests for external equipment would be accepted or rejected by the owner(s). Costs associated with ownership or an 'agreed' rental rate internally would remain with that equipment & simply be charged to that cost centre.

It may be difficult to identify with such an approach however with the ease of application and due to the logistical & administrative ease of cross hiring equipment, the following can occur;

- Improved utilization of equipment over its life cycle
- Reduced need for surplus gear across the We-Roc fleet (see points 3 & 4 above)
- Potential to also wet hire machines and improve recoverables should there be downtime of an employee operator
- Recovery of maintenance & ownership costs by asset owner for an otherwise underutilised asset
- Permanent or temporary transfer of equipment to other We-Roc shire balance sheets
- Improved buy / sell decisions to ensure the group as a whole has the optimum amount of equipment

A further benefit of adopting such technology is the ability to then progress towards a more 'group orientated' approach of combining assets into a physical pool (refer point 6 below)



6) CENTRALISATION OF ASSET / ASSET MANAGEMENT

DIFFICULTY: MEDIUM TO HIGH. PHYSICAL ASSET CONTROL, MAINTENANCE & LOGISTICS

TIME TAKEN: MEDIUM TO HIGH. STEPPED PROCESS WITH MEASUREMENT OF KEY DELIVERABLES

Asset ownership is in the top 2 expenses of a shire, along with its people.

Inefficiencies are created when focus is not put on the cost base or operational expense of maintaining or operating such assets. The level of reporting and analysis on these costs is evident that this has not been a priority however the fact that a review has been requested provides the underpinning belief that there can be some improvements in effective fiscal management of such a large cost base.

Each shire has its own equipment deemed necessary to perform the works and this approach has resulted in materially underutilized assets as shown in the utilization graphs provided.

In this report we have touched on areas that highlight the need for focus and potentially what actions can be undertaken to lift the profile of its importance to the financial viability of the We-Roc group of shires. In this section we provide a bold but what we see, necessary solution to have the material impact required for the financial benefit of the group.

In point 5 we discuss the technological step to provide a group view of assets in the fleet which are used to perform critical & noncritical works within your shire. This is a step that not only improves focus through reporting, analysis and potential allocation of 'pooled' equipment resources, but also allows a completely different view of asset ownership and what it means to have assets 'available' to perform works. In that stage we are not suggesting gear is physically moved however what we are promoting is that you don't need to own it or have it sitting physically in your yard, or even your region, for it to be available for use.



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Stepping forward once this is understood & adopted, is the potential to physically pool gear in one location. This doesn't mean to say ownership has changed, it simply resides somewhere else until such time as you need it. We attempt to point out in this section that although this is a difficult concept to comprehend, the material benefits mean this should be explored.

We have listened to each shire about the requirement for the assets and the need of the ratepayers and we are not doubting there are scenarios to work through when taking on such a bold concept such as;

- Seasonal work all at one time
- Lack of physical ownership means that scheduled & unscheduled works may not be performed
- Trust
- Who pays for what
- Future budgets & funds will be negatively impacted.

All are valid reasons to explore & work through however our independent assessment is that none of these issues should prevent adopting this model

THE MODEL

For this concept to be explored, it needs common agreement and mindset that an alternative model can work, through communication and a desire to improve the financial outcome for each region.

We suggest that (Post technological adoption) One (1) physical location be chosen as the asset hub within the We-Roc region. From here it needs to be approached in stages.

Stage 1 - all non-critical gear is moved to the chosen location in an asset holding yard. The holding yard is will be the We-Roc asset resource centre (RC). The RC is responsible for ;

- Fulfillment of works manager's needs – (measured on strict KPI's & deliverables)
- All maintenance activity
- Parts holding & distribution
- Transport & logistics of gear
- Hire of equipment (back up)
- Buy / Sell recommendations to We-Roc executives / works managers

There will be a need to form an asset committee or the like, made up from a representative of each council. This will have combined accountability for the smooth operation of the business unit.

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Stage 2 – A review of the combined asset holding will be undertaken. This review will take place to identify the optimum level of asset holding for each plant type based on works requirements. Given this is a new concept this may take place over a period once the model settles and confidence in the ability of the RC is gained. Upon assessment of required equipment, a formal sale process of underutilized equipment is undertaken with acquired funds returning to individual councils who own the equipment. Alternatively, these funds can be held by the RC for the purchase of future assets for the region.

Stage 3 – Procuring a hire agreement with a reputable equipment hiring company to backfill short term requirements will provide confidence of continued works in times of shortfall. The asset fleet size should not be managed to a level that covers for the ‘just in case’, this should be managed by rigid asset management practices to create a truly efficient model.

Stage 4 - Upon successful operations of the RC and with confidence in the model, the option of bringing all gear to the RC should be explored. This will maximise savings of such an approach and further justify the expense of the technology platform and set up costs.

At this time a further review of utilization should be analysed with the view to sell equipment which is now surplus to the overall needs of the works managers.

The overall model is based on removing much of the duplication in the management of assets across the 5 councils. It allows for the reduction in overall capital tied up in mobile plant whilst also releasing initial funds from the sale of plant.

As noted previously in this report, maintenance is not measured in many councils down to machine level so it is difficult to understand the total ownership costs however a broad assumption must be made that the older the equipment, the more that will be spent on maintenance. With the model just highlighted, We-Roc can look to decrease the average age of its working fleet. With newer equipment comes lower maintenance costs, fewer breakdowns therefore reducing downtime for its operators, and more OEM support for warranty claims etc. Funds released should be employed to acquire this new equipment (note item on Sale & Purchase policy).

SUMMARY

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Through this review it has become evident that the level of understanding of full asset spend and inefficiencies in asset utilization is low. This is in part due to lack of visibility of reporting but also to the fact that there are limited controls, drivers or requirements to monitor such spend or activity. The level of local understanding of owned equipment is undoubtedly there but we look to provide detailed solutions to maximizing the capability of a combined We-Roc network approach to asset management.

Now we have thoroughly reviewed the current position of the 5 individual councils, we envisage the most effective & efficient outcome is a position with a reduced fleet size, owning newer model equipment, resulting in lower maintenance costs & higher utilization outcomes, backed up by a cross hiring network, plus an external hiring capability to maintain or even improve service to the community. Providing more value to the ratepayers and more surplus funds to create the opportunity for alternative investment within the region.

The We-Roc group of shires has an ability to create a unique marketplace, with improved purchasing power, better OEM support of parts and repair, an efficient maintenance hub and a best of class technology solution to asset management & logistics that will lead the way above other LGA's. Roles & responsibilities can also be recreated into alternative functions that add more value to the administration of the councils.

Some of our takeaways from discussions or observations were;

- Individual shires only have enough resources to look after themselves
- Physical ownership of gear is seen as a necessity to conduct works (this is not the case in all instances)
- Ability to share equipment across the shire network is administratively difficult
- Lack of detail in the reporting is evident but rarely challenged
- Capex budgets are being squeezed
- Cost reductions are met with lower level of external funding and can cost jobs

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Whilst there will be challenges both ways in the above points, it is evident there is a clear need for an improved financial position for some shires and we believe managing one of the highest expenses for the region more effectively will deliver savings.

We also believe that different levels of thinking can open up opportunities. Some additional conversation starters are that the funds saved by such a bold move in asset management could be matched by additional regional program funding for economic activity or skills training. Or perhaps if we turn one shire into the asset & maintenance hub, that other shires can invest the surplus funds into other activities to provide alternative jobs for their staff.

From our external and independent review, we see a material benefit for the region by implementing improvements to the asset management practices and we would welcome further involvement to assist in making this happen

We appreciate the opportunity to work with each individual council & the We-Roc executives and we look forward to working with you in implementing any or all of the above strategies going forward.

Regards

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